

Message Text

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ACTION NEA-10

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E.O. 11652: N/A
TAGS: EFIN, PK
SUBJECT: USG RUPEE DEPOSITS IN AMERICAN BANKS

REF: ISLAMABAD 5983

1. REFTTEL REPORTED THE RECENT INCREASE IN INTEREST RATES ANNOUNCED BY THE STATE BANK OF PAKISTAN. THIS CHANGE, AND OTHER CHANGES BEING OR ABOUT TO BE INSTITUTED IN PAKISTAN BANKING REGULATIONS, COULD AFFECT USG RUPEE DEPOSITS IN THE AMERICAN BANKS IN PAKISTAN.

2. DEPARTMENT AND TREASURY WILL RECALL THAT THE TREASURY AND THE HEAD OFFICES OF THE THREE AMERICAN BANKS WITH BRANCHES IN PAKISTAN-AMERICAN EXPRESS, CITIBANK AND BANK OF AMERICAN- AGREED IN MARCH 1975 ON A 4 1/2 PERCENT AVERAGE INTEREST RATE FOR USG RUPEE DEPOSITS. THIS INTEREST RATE WAS RETAINED WHEN THE GOP RAISED ITS MINIMUM RATE ON 7-29 DAY "SPECIAL NOTICE" DAY/ DEPOSITS TO 5 PERCENT IN OCTOBER 1975. THE DECISION TO RETAIN THE 4 1/2 PERCENT RATE, AS WE UNDERSTAND IT, WAS BASED IN LARGE MEASURE ON A JUDGMENT BY TREASURY THAT THIS ACCEPTANCE OF LESS
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THAN THE NORMAL INTEREST RATE WAS APPROPRIATE TO SAFEGUARD THE BANKS' PROFITABILITY. IN ORDER TO ACHIEVE THE 4 1/2 PERCENT AVERAGE WHILE ABIDING BY PAKISTAN BANKING REGULATIONS, 90 PERCENT OF OUR TIME DEPOSITS WERE PLACED IN SIX MONTH DEPOSITS, PAYABLE AT 7-DAY NOTICE, EARNING 5 PERCENT, AND THE REMAINING 10 PERCENT WERE PLACED IN INTEREST FREE ACCOUNTS. THE SIX MONTH DEPOSITS WERE MOST RECENTLY RENEWED IN MARCH, SO THE NEW RATES

WOULD NOT TECHNICALLY APPLY TO THEM UNTIL THEY WERE UP FOR RENEWAL AGAIN IN SEPTEMBER.

3. UNLIKE THE OCTOBER 1975 INTEREST CHANGES, THE LATEST CHANGE IN THE INTEREST RATES ON DEPOSITS WAS BALANCED (REFTEL) BY AN INCREASE IN THE RATES BANKS CAN CHARGE ON LOANS. HOWEVER GENERAL INFLATION HAS TAKEN ITS TOLL OF THE BANKS AS IT HAS ON OTHER BUSINESSES, PARTICULARLY IN THE FORM OF INCREASED OPERATING COSTS. CONGEN KARACHI, COMMENTING ON THE BANKS' CURRENT PROFITABILITY, NOTED THAT THE BANKS HOLD GOP TREASURY BILLS AS PART OF THEIR 35 PERCENT RESERVE REQUIREMENT, AND THAT THE INTEREST RATE CHANGE WILL NOT IMMEDIATELY AFFECT THE YIELD ON THESE. KARACHI ALSO BELIEVES THAT THE 20 PERCENT SURCHARGE ON IMPORTS AND WHATEVER DROP IN EXPORTS HAS RESULTED FROM THE POLITICAL AGITATION MAY ALSO CUT INTO THE BANKS' PROFITABLE L/C BUSINESS, ALTHOUGH THE IMPORT OF THE IMPORT SURCHARGE COULD BE OFFSET ALSO BY ENCOURAGING OVERDRAFT LENDING. TO A DEGREE, WITH-DRAWALS OF FOREIGN CURRENCY DEPOSITS HAVE APPARENTLY ALSO CUT INTO THE BANKS' LOAN FUNDS.

4. POTENTIALLY THE MOST SIGNIFICANT DEVELOPMENT AFFECTING THE BANKS' PROFITABILITY IS THE CHANGE IN THE METHOD BY WHICH THE STATE BANK CALCULATES THE BANKS' CREDIT CEILINGS EFFECTIVE JULY 1. FOR THE FIRST TIME, INTERBANK LENDING WILL BE CONSIDERED WITHIN THE CREDIT CEILING. LENDING FROM INTERBANK FUNDS HAS TRADITIONALLY BEEN IMPORTANT FOR THE US BANKS, INHIBITED AS THEY HAVE LIMITED OFFICIAL USE

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BEEN IN SEEKING LOCAL DEPOSIT BUSINESS. THERE IS SOME CONCERN THAT THE INTERBANK MARKET MAY ALMOST DRY UP. IT IS TOO EARLY TO TELL HOW IMPORTANT THE EFFECTS OF THIS NEW FORMULA WILL BE, BUT IT IS CERTAINLY POSSIBLE THAT IT WILL CUT BACK ON THE AMOUNT OF LOAN BUSINESS THE BANKS CAN DO.

5. BASED ON THE DEPOSIT FIGURES INFORMALLY PASSED TO US BY THE BANKERS, WE CALCULATE THAT USG DEPOSITS REPRESENT ABOUT 24 PERCENT OF THE BANK OF AMERICA'S DEPOSIT FUNDS, 14-16 PERCENT OF CITIBANK'S, AND ABOUT 50 PERCENT OF AMERICAN EXPRESS DEPOSITS (SOME-WHAT OVER 50 PERCENT INCLUDING THE USDO CHECKING ACCOUNT).

6. WE ASSUME THAT, AS IN THE PAST, TREASURY WILL BE DISCUSSING THE IMPACT OF THESE CHANGES ON THE INTEREST RATES ON USG DEPOSITS WITH THE HEAD OFFICES OF THE THREE BANKS. WOULD APPRECIATE BEING ADVISED AS EARLY AS POSSIBLE IF ANY CHANGE IS CONTEMPLATED, AND IN ANY CASE BEFORE THE SEPTEMBER MATURITY DATE OF OUR PRESENT DEPOSITS. RETAINING THE PRESENT 4 1/2 PERCENT RATE, OR RAISING IT TO ANYTHING LESS THAN 5 1/2 PERCENT, WOULD NECESSITATE A SPLIT DEPOSIT ARRANGEMENT LIKE THE ONE WE NOW HAVE.

7. THE REPORT INCORPORATES CONTRIBUTIONS FROM CONGEN KARACHI AND

LAHORE.
CONSTABLE

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